



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.A.A.102

June 6, 2003  
03-PAS-041(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
ASSISTANT DIRECTOR, OPERATIONS, DCAA

SUBJECT: Revised Audit Guidance on Obtaining Representations from Technical Specialists  
Regarding their Independence

**Summary**

This memorandum supercedes MRD 03-PAS-009(R), dated January 28, 2003, Subject: *Audit Guidance on Obtaining Representations from Technical Specialists Regarding their Independence*. Specifically, this memorandum revises the procedures regarding the auditor's course of action when he/she is unable to obtain the Independence Statement from the technical specialist, or if the specialist has an impairment to independence. Due to the timing of this revised audit guidance, and the pending publication of the July 2003 CAM, this guidance will not be fully incorporated into CAM until the January 2004 edition.

All requests for technical evaluation reports should continue to be made using the pro forma letters in Enclosures 1 and 2. In accordance with the Government Auditing Standards, Amendment No. 3, Independence, Section 3.14, DCAA auditors must provide the technical specialist with the generally accepted government auditing standards (GAGAS) independence requirements and obtain representations from the specialist regarding his/her independence from the activity or program under review. When DCAA requests a technical evaluation, the technical specialist should complete the Independence Statement and submit it to DCAA along with the technical report.

**Background**

MRD 03-PAS-001(R), dated January 2, 2003, announced that the General Accounting Office (GAO) issued Government Auditing Standards, Amendment No. 3, Independence, which was effective January 1, 2003. The requirements of the Amendment, and DCAA's additional implementation guidance, have been incorporated into sections 2-203 and 2-S103.1 of the January 2003 edition of the CAM.

Subject: Revised Audit Guidance on Obtaining Representations from Technical Specialists  
Regarding their Independence

## Guidance

### Technical Evaluations from DCMA

Generally, DCAA requests for technical evaluations regarding Department of Defense (DoD) procurements are performed by the Defense Contract Management Agency (DCMA). Therefore, DCMA and DCAA representatives worked together to develop these procedures to assist DCAA auditors in obtaining representations from DCMA technical specialists regarding their independence from the activity or program under audit. See DCMA's Tasking Memo No. 03-121 in Enclosure 3.

Requests for technical evaluation reports should be made using the pro forma letters in Enclosures 1 and 2. The wording in this letter provides the technical specialist with the GAGAS independence requirements, and requests a representation from the specialist regarding his/her independence from the activity or program under review.

The auditor should contact the technical specialist if an Independence Statement is not received along with the requested technical report. When the auditor receives a technical report not requested by DCAA, the auditor should obtain an Independence Statement from the technical specialist, if after reviewing the report, the auditor concludes that the results of the evaluation should be incorporated into the audit report. If the auditor is unable to obtain the Independence Statement from the technical specialist, or if the specialist has an impairment to independence, the auditor should contact the requestor to discuss this situation and inform the requestor that our report will not incorporate the results of the technical evaluation. If the requestor still desires that the results of the technical evaluation be incorporated into the audit report, the auditor may include the impact of the technical evaluation as a separate attachment to the report. The scope paragraph of the audit report should include a qualification addressing the circumstances and referring to the attachment. The attachment to the report should be in the same format as the Summary of Audit Results cost breakdown in the report, except that it would incorporate the results of the technical evaluation with an explanatory note indicating that the information is for information purposes only, and that it is not part of the audit report. The auditor may include the technical evaluation as part of the attachment.

The scope and the opinion paragraphs may read as follows when the auditor did not receive the representations from the specialist regarding his/her independence:

#### (1) Qualification

*"We were unable to determine the reasonableness of the 20 percent complexity factor applied to the manufacturing direct labor hours. Refer to the Results of Audit, page [X], Note [X] for a detailed discussion of these costs. On [date], we requested technical assistance from [name of the organization]. Our request required the technical specialist to submit, along with the technical report, representations regarding his independence from the program or activity under audit, in accordance with government auditing standards. We received the technical report on [date]; however, the technical specialist did not submit his representations regarding*

Subject: Revised Audit Guidance on Obtaining Representations from Technical Specialists  
Regarding their Independence

*his independence along with the technical report. Such representations are considered essential to determine the level of reliance that can be placed on the results of the technical report. Therefore, our audit report opinion does not cover the result of the technical evaluation. Our audit results are qualified to the extent that a technical evaluation performed by an independent specialist could result in additional questioned costs. As requested by your office, we have included as an attachment to this report an impact of the results of the technical evaluation on [the subject matter of audit] for information purposes only.”*

## (2) Results of Audit

*“In our opinion, the offeror has submitted adequate cost or pricing data. The proposal was prepared in accordance with applicable Cost Accounting Standards and appropriate provisions of FAR and the Defense FAR Supplement (DFARS). Except for the judgmental 20 percent complexity factor applied to manufacturing direct labor, we believe that the proposal is an acceptable basis for negotiation of a fair and reasonable price. As discussed in the Qualification in the Scope of Audit section of this report, we received the technical report on [date]; however, the technical specialist did not submit his representations regarding his independence along with the technical report. Such representations are considered essential to determine the level of reliance that can be placed on the results of the technical report. Therefore, our audit report opinion does not cover the result of the technical evaluation. As requested, we have attached to the report the impact of the technical evaluation for information purposes only.”*

## Technical Evaluations from Organizations Other Than DCMA

Auditors should apply the above (DCMA) procedures when requesting technical evaluation services from any external organization. Field audit offices (FAOs) that generally request technical evaluations from local government components other than DCMA, e.g., the Supervisor of Shipbuilding (SUPSHIP), should work with their local technical organization to develop a process consistent with the above procedures. DCAA Financial Liaison Advisors (FLAs) will be informing the buying commands with which they work of these procedures. Auditors who have difficulties obtaining independence representations from non-DCMA organizations should contact the cognizant FLA for the organization performing the technical evaluation.

## **Closing Remarks**

FAOs and FLAs should coordinate with their local DCMA or buying commands to ensure that they are familiar with these procedures. FAOs and FLAs may offer to share the training materials on auditor independence provided in MRD 03-PAS-001(R), dated January 2, 2003.

Subject: Revised Audit Guidance on Obtaining Representations from Technical Specialists  
Regarding their Independence

FAOs should direct any questions or concerns on this subject to their regional office. Regional offices and Headquarters Audit Liaison Division (OAL) may address their questions to Ms. Maria A. Davey, Program Manager, Auditing Standards Division (PAS) at (703) 767-3274 or e-mail [dcaa-pas@dcaa.mil](mailto:dcaa-pas@dcaa.mil).

/s/ Terry M. Schneider  
/for/ Robert DiMucci  
Assistant Director  
Policy and Plans

Enclosures:

1. CAM Appendix D - Figure D-2-1 (Revised)
2. CAM Appendix D - Figure D-2-2 (Revised)
3. DCMA Tasking Memo No. 03-121

DISTRIBUTION: C

**CAM APPENDIX D - FIGURE D-2-1 (REVISED)**  
**PRO FORMA REQUEST FOR TECHNICAL ASSISTANCE**  
**LABOR EXAMPLE**

TO: Administrative Contracting Officer *[or Other Audit Requestor]*

SUBJECT: Request for Technical Specialist Assistance, Proposal *[reference]*

As part of our audit of the subject price proposal, we have examined the estimating rationale used in calculating proposed direct manufacturing labor hours. In estimating this cost element, the contractor used plant-wide labor standards adjusted by a productivity factor resulting from experience on contract no. *[number]*. The contractor then judgmentally applied a 20 percent complexity factor to reflect the impact of this newly proposed product. We request that an engineer review the reasonableness of the following items:

1. The proposed 20 percent complexity adjustment factor.
2. The benefit of past learning on the proposed labor estimates. The auditor plans to apply a learning curve technique.
3. The proposed in-house labor standards for recurring manufacturing labor for:
  - a. Item 1 --- Set up 1.097; Run 453.301
  - b. Item 2 --- Set up 212.5; Run 63.511
  - c. Item 3 --- Set up 312.4; Run 75.551

We further request that the technical specialist's review results be furnished to us as soon as possible for incorporation into our audit. Our audit report is due by *[date]*. If the technical specialist's review results cannot be provided by *[date]*, we request that the audit report due date be revised to permit consideration of the technical findings.

Government Auditing Standards, Section 3.14, states that "in using the work of a specialist, auditors need to consider the specialist as a member of the audit team and, accordingly, assess the specialist's capability to perform the work and report results impartially. In conducting this assessment, auditors should provide the specialist with the GAGAS independence requirements and obtain representations from the specialist regarding his/her independence from the activity or program under audit. If the specialist has an impairment to independence, the auditor should not use the work of that specialist." In this regard, we are providing the GAGAS independence requirements in the enclosure to this request and are requesting that the attached Independence Statement be submitted along with your report.

Should you have any questions regarding this request, please contact *[name]*, Auditor, at *[telephone number]* or e-mail *[address]*.

*[name]*  
Branch Manager

Enclosure

Government Auditing Standards  
Independence Requirements

Personal Impairments

- You have an immediate family or close family member who is a director or officer of the contractor, or is an employee of the contractor, and is in a position to exert direct and significant influence over the contractor or the program under audit/evaluation;
- You have a financial interest that is direct, or is significant/material though indirect, in the audited/evaluated contractor or program;
- You are evaluating an entity's program in which you made determinations or made program management decisions on behalf of the entity;
- You performed professional and/or technical services for the contractor affecting the program under evaluation;
- You have preconceived ideas or biases toward individuals, groups, organizations, or objectives of a particular program that would disable you from performing a fair evaluation.
- You are seeking employment with the contractor during the conduct of the evaluation.

External Impairments

External impairments to independence occur when you are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, external to the organization, such as from management and employees of the entity under evaluation or oversight organizations.

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Independence Statement

SUBJECT: Request for Technical Specialist Assistance, Proposal \_\_\_\_\_

The analyst(s) was (were) free from any personal and external impairments that would preclude independent evaluation of the subject.

Specialist Signature: \_\_\_\_\_  
Specialist Name: \_\_\_\_\_  
Specialist Position Title: \_\_\_\_\_  
Organization: \_\_\_\_\_  
Date: \_\_\_\_\_

**CAM APPENDIX D - FIGURE D-2-2 (REVISED)**  
**PRO FORMA REQUEST FOR TECHNICAL ASSISTANCE**  
**MATERIAL EXAMPLE**

TO: Administrative Contracting Officer *[or Other Audit Requestor]*

SUBJECT: Request for Technical Specialist Assistance, Proposal *[reference]*

As part of our audit of the subject price proposal, we have sampled certain material costs for detailed analysis. During our evaluation of the sampled items, we attempted to validate proposed quantities and prices. As part of this validation process, we traced sample part quantities back to originating engineering drawings and related supporting documents. However, we were unable to validate whether the drawings reviewed accurately reflect the item(s) to be furnished, or that the parts are required. The items in question are summarized as Enclosure 1 to this memorandum. We request that an engineer review each of these items to determine (1) item necessity, (2) required quantity, and (3) the propriety of the contractor's proposed quality level. We request that the results of this technical review be furnished to us as soon as possible.

In addition, the contractor proposed use of a historical scrap factor. Since this proposal is for production of a product similar to those produced in the past, it is our opinion that the factor should be adjusted for the impact of learning. We further request that an engineer review this matter and provide an opinion on whether reductions from learning may be reasonably expected in the circumstances. If so, we will ask the contractor to revise the estimates.

Our audit report is due by *[date]*. If the results of the technical specialist review cannot be provided by *[date]*, we request that the audit report due date be revised to permit consideration of the findings.

Government Auditing Standards, Section 3.14, states that "in using the work of a specialist, auditors need to consider the specialist as a member of the audit team and, accordingly, assess the specialist's capability to perform the work and report results impartially. In conducting this assessment, auditors should provide the specialist with the GAGAS independence requirements and obtain representations from the specialist regarding his/her independence from the activity or program under audit. If the specialist has an impairment to independence, the auditor should not use the work of that specialist." In this regard, we are providing the GAGAS independence requirements in the enclosure to this request and are requesting that the attached Independence Statement be submitted along with your report (Enclosure 2).

Should you have any questions regarding this request, please contact *[name]*, Auditor, at *[telephone number]* or e-mail *[address]*.

*[name]*  
Branch Manager

Enclosures

**FIGURE D-2-2**  
**PRO FORMA REQUEST FOR TECHNICAL ASSISTANCE**  
**MATERIAL EXAMPLE**

Government Auditing Standards  
Independence Requirements

Personal Impairments

- You have an immediate family or close family member who is a director or officer of the contractor, or is an employee of the contractor, and is in a position to exert direct and significant influence over the contractor or the program under audit/evaluation;
- You have a financial interest that is direct, or is significant/material though indirect, in the audited/evaluated contractor or program;
- You are evaluating an entity's program in which you made determinations or made program management decisions on behalf of the entity;
- You performed professional and/or technical services for the contractor affecting the program under evaluation;
- You have preconceived ideas or biases toward individuals, groups, organizations, or objectives of a particular program that would disable you from performing a fair evaluation.
- You are seeking employment with the contractor during the conduct of the evaluation.

External Impairments

External impairments to independence occur when you are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, external to the organization, such as from management and employees of the entity under evaluation or oversight organizations.

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Independence Statement

SUBJECT: Request for Technical Specialist Assistance, Proposal \_\_\_\_\_

The analyst(s) was (were) free from any personal and external impairments that would preclude independent evaluation of the subject.

Specialist Signature: \_\_\_\_\_  
Specialist Name: \_\_\_\_\_  
Specialist Position Title: \_\_\_\_\_  
Organization: \_\_\_\_\_  
Date: \_\_\_\_\_



**Tasking Memo No. 03-121**

**Memorandum For** Director DCMAE, DCMAW and Cdrs DCMA CMOs

**Subject:** Independence Requirements for Technical Specialists Supporting DCAA Audits

**Date:** January 15, 2003

**Suspense Date:** January 3, 2003

**Target Audience:** CMO personnel whose work product will be incorporated into a DCAA audit report and their supervisors

**Requirement(s):**

- On January 25, 2002, GAO issued Government Auditing Standard No. 3, "Independence," requiring the DCAA auditor and any technical specialist providing support to an audit to be free both in fact and appearance from personal and external impairments to independence. The standard can be accessed at <http://www.gao.gov/> under Other Publications, click on "The Yellow Book".
- This standard, effective January 1, 2003, requires the auditor seeking technical support to obtain representations from the technical specialist that s/he is independent from the activity or program under audit. An example request for technical assistance containing the requirements of the new standard and the independence statement to be completed by the technical specialist and returned to DCAA is provided in Attachment 1.\*
- A policy change will be issued to incorporate this requirement into One Book chapters affected by this requirement.
- CMO personnel whose work product will be incorporated into a DCAA report and their supervisors will:
  - Familiarize themselves with the requirements of the standard and the statement sheet. Background information is provided in Attachment 2.\*
  - Provide the independence statement to DCAA along with a technical report.
- It is estimated that familiarization with this process will take approximately 1 hour.
- PLAS Process code 124B and program code NTR02 are appropriate for the familiarization activity required by this tasking.

**Point of Contact for Further Information:**

[Joan Sherwood](mailto:joan.rsherwood@dcma.mil) (<mailto:joan.rsherwood@dcma.mil>) /DCMA-OCB/703-428-0982

**Signature:**

ROBERT W. SCHMITT, Executive Director, Contract Management Operations

\* To avoid duplication of information, the attachments referred to in this memorandum have been omitted in this MRD.